



## **Vaiola P.I. Budgeting Service**

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### **SUBMISSION TO FINANCIAL LITERACY AND RETIREMENT INCOME COMMISSION FROM VAIOLA P.I. BUDGETING SERVICE TRUST**

#### **Background**

The Vaiola P.I. Budgeting Service Trust in Mangere, Auckland was set up in 1997 to provide a free financial, budgeting and advocacy service to a wide range of clients. It is culturally tailored to serve its predominantly (84%) Pacific Island client group, though it does accept referrals from other ethnicities, including Europeans.

The Trust is contracted by MSD to deliver "one to one budget advice" to only 200 clients per year, but we always greatly exceed this number. The sources of referrals are mostly W&I and HNZ, but also the Courts, health and social service agencies, utility companies, creditors, banks and other budgeting services. The Trust carry out financial and budgeting services with great success, but do not do total money management.

Demand for service has always exceeded available resources, and present economic and financial conditions and public policy changes have increased that demand. Vaiola's overwhelming success rate and level of referrals, particularly from W&I, have grown to the point where the Trust have to decline clients because of lack of capacity.

The service is seeing increasing numbers of middle class, working and redundant clients in complex and challenging financial circumstances and mortgage arrears, and over the last 15 years unfunded mortgage work has become an extremely time-consuming part of the service. They estimate the workload per client to be 10-12 times greater than for a "normal" or "standard" budgeting client.

#### **Kiwisaver**

As a result of these pressures Vaiola are experiencing an increasing number of requests for Kiwisaver withdrawals. The service recorded 33 withdrawal requests in the 2011-12 financial year, and has already received 50 for July 2012–May 2013. Referrals are often directly from the Kiwisaver provider, but none of this work is funded. The service estimates the workload to be 6-8 times greater than for preparation of an ordinary budget.

Vaiola's data collection systems limit a more detailed analysis, but the service has made the following observations. Publicity, local knowledge and referrals are fuelling the demand. Social issues underlie the withdrawals - eviction, hardship, mortgagee sales, repossession, rent arrears, rates, loss of jobs/reduced hours and suicide. Many clients are naïve victims of dubious finance practises and a loosely regulated finance sector. Vaiola is concerned at the discretion placed with individual Kiwisaver providers and consistency of their processes and decisions. Some process quickly while others are a lot slower. There is often little clarity around reasons for delays which causes unnecessary stress for clients in crisis. Where extra information is required, or an application declined or reconsidered, the provider contact frequently reverts directly to the client and the budget service is left out of the loop. This can create unnecessary work in follow-up and risks confusion where there are language or financial literacy issues. ... 2 ...

Vaiola note the lack of clarity around withdrawal payments. Some providers pay directly to outstanding debtors, some others directly to clients. The last option carries the greatest risk if the funds are not used to offset debt as intended. The present economic pressures combined with low income, poor financial literacy and relatively recent migrants increases that risk.

There is also concern about the consistency of provider decisions on withdrawals, and the appropriateness of accepting low-income clients and beneficiaries into Kiwisaver schemes when they are already under severe financial constraints. This could be addressed by budget assessment for those below a certain income rather than the automatic opt-in.

Kiwisaver has been a great help for our clients, particularly those with mortgagee sales when PLA notices have expired and the house is up for auction, and with eviction clients when they are about to go to a Tribunal hearing, and we usually manage to negotiate when the Tribunal knows a Kiwisaver application is on the way. High land rates arrears about to be referred to mortgagee, water supply about to be restricted because of water rates arrears, and motor vehicles about to be repossessed, are situations we will also do Kiwisaver applications for. However, we will not do Kiwisaver applications for clients who just want to draw some money out as if it were just another bank account. We also try to explain to clients what the main intention of Kiwisaver is, namely to provide for their retirement years. It was also good for one of our clients who was able to get money from Kiwisaver for a deposit on their first home. Some clients had come to us after trying to do a Kiwisaver application themselves but were declined, but the Kiwisaver applications that we prepare have always been successful.

Vai Harris, QSM  
Service Manager